Media release

AFG Arbonia-Forster-Holding AG returns to profit

Net revenues were up 0.4% to CHF 628.6 million – EBIT showed a pronounced increase of CHF 27.2 million to CHF 15.2 million - the Group result improved to a profit of CHF 1.3 million.

Arbon TG, 3 August 2010 – **International construction products supplier and technology group AFG Arbonia-Forster-Holding AG has turned around a loss in the last financial year to return to profit in the first half of 2010. With market conditions still challenging, AFG posted a slight increase in net revenues but a significant improvement in earnings. Net revenues increased by 0.4% – or 2.1% after adjusting for currency changes against the Swiss franc – to CHF 628.6 million. In an environment that is becoming more conducive to investment again, the Group's strict cost management policy began to have an effect. This is reflected in its profitability. Operating earnings (EBIT) were a significant CHF 27.2 million higher at CHF 15.2 million, following a clearly negative figure of CHF -12.0 million for the equivalent period last year. The Group result also improved markedly, recovering from a loss of CHF -23.3 million a year earlier to a profit of CHF 1.3 million.**

The healthier income statement was accompanied by further strengthening of the balance sheet. Net indebtedness continued to follow a positive trend. At CHF 254.5 million it was much lower than the previous year figure of CHF 378.1 million, and only just higher than the CHF 239.7 million recorded as of 31 December 2009. The better result allowed the Group to reduce its leverage ratio (net indebtedness divided by EBITDA) substantially from -3.18 as of 30 June 2009 to -2.15. The cash flow statement as of 30 June 2010 shows a seasonally normal free cash flow of CHF -23.4 million (CHF -26.8 million).

AFG's Chairman of the Board of Directors and CEO Edgar Oehler is cautiously optimistic about the traditionally stronger second half of the year: "Barring unforeseeable events, we believe there will be slightly higher net revenues and a significant improvement in profitability for the year as a whole."

Varied performance by the individual divisions

Net revenues in the **Heating Technology and Sanitary Equipment Division** fell only slightly (1.7%) from the previous year's CHF 264.5 million to CHF 260.0 million. After adjusting for currency effects it posted growth of 1.7%. Though conditions on the market were still challenging, and despite rising steel prices, the division managed to post a respectable EBIT of CHF 19.2 million (previous year CHF 1.9 million). This represents an improvement of CHF 17.3 million, though it should be noted that the previous year result was impacted by the CHF 15.5 million goodwill impairment charge of Aqualux. Excluding this exceptional charge, the year-on-year rise in EBIT for the period under review comes to CHF 1.8 million. Once again, the division was able to rely on its two home markets of Switzerland and Germany, while the Eastern European markets remain weak. UK-based Aqualux performed much better, but still did not turn a profit. This prevented the division from achieving an even better result.

Net revenues at the **Kitchens and Refrigeration Division** were down 5.4% at CHF 113.7 million compared with the same period last year (CHF 120.1 million). EBIT fell to CHF -5.8 million (CHF -2.9 million). While Swiss brands Piatti and Forster and the refrigeration business performed well, the kitchens business struggled because of a further decline in exports by Warendorf and related capacity utilisation problems. The change in brand name from Miele Kitchens to Warendorf, which was announced some time ago, is progressing as planned, but the division's continuing unsatisfactory performance means that comprehensive structural and personnel measures are required to ensure sustainable growth in revenues and earnings. These have already been initiated. Current Head of Division, Hansgeorg Derks, has been relieved of his duties with immediate effect and has left the company. Under the leadership of CEO Edgar Oehler, the three general managers of Forster Kitchens and Refrigeration, Piatti und Warendorf have taken over management of the division on an interim basis. Definitive arrangements will be announced at a later date.

Thanks to a strong domestic market, net revenues in the **Windows and Doors Division** improved by 1.0% to CHF 159.4 million (CHF 157.9 million), though EBIT declined slightly by 6.6% to CHF 7.8 million (CHF 8.4 million). In the windows and doors business, competition has become noticeably more aggressive, with price-cutting and heavy pressure on margins. The division is still partly suffering from project delays as a result of the unusually cold winter months at the start of 2010. It has not yet been possible to make up for these completely. As a result, RWD Schlatter finished the first half-year with net revenues slightly down compared with last year’s figure, while in the windows business, EgoKiefer, which focuses on the Swiss market, achieved higher net sales than previous year with capacities fully utilised. In Slovakia, Slovaktual suffered, like the Heating Technology and Sanitary Equipment Division, from continued flat demand in Eastern European markets.

The **Steel Technology Division**, which is more dependent on the automotive industry than any of the other divisions, benefited from the surprisingly fast worldwide recovery in the automotive sector. It managed to increase revenues by 12% to CHF 67.6 million (CHF 60.3 million), and improve operating results from CHF -6.3 million in the prior-year period by an impressive CHF 11.5 million to CHF 5.2 million. The division was previously managed by Edgar Oehler in addition to his duties as CEO. At his request, the Board of Directors appointed the long-standing head of the steel tubing business, Christian Mayer, as the new Head of Division and member of Group Management. Christian Mayer, who has 15 years of experience in the industrial steel products business, will take over his new role as of 1 September 2010.

As expected, the **Surface Technology Division**, which is strongly dependent on the printing machinery industry and highly focused on exports, was able to work its way out of the difficult situation caused by the dramatic fall in demand from the printing industry. The crisis in the industry is still not completely over, but the recovery so far has been better than expected. The performance of the other business areas, especially Marine and Aeronautics, has remained below expectations, but the level of incoming orders suggests that the decline in even these areas has bottomed out. The division saw first half-year revenues increase by 8.7% to CHF 28.0 million (CHF 25.8 million). As announced earlier, it has still not managed to achieve positive operating results, but the loss at EBIT level was practically halved as planned, reducing by CHF 3.5 million from last year's CHF -7.9 million to CHF -4.4 million.

Balance sheet further strengthened

The already solid balance sheet improved in parallel to the income statement. The equity ratio fell from the last year's 43.0% to 40.5%, but this decline was due to the high level of liquidity generated by the CHF 200 million bond issue in April this year, and to the currency effects booked through equity.

Net indebtedness continued to follow a positive trend. At CHF 254.5 million it was much lower than the previous year figure of CHF 378.1 million, and only just higher than the CHF 239.7 million recorded as of 31 December 2009. The better result allowed the Group to reduce its leverage ratio (net indebtedness divided by EBITDA) substantially from -3.18 as of 30 June 2009 to -2.15. This ratio is now close to the Group's target corridor of -1.00 to -2.00. All covenants on all credit agreements have been met. The cash flow statement as of 30 June 2010 shows a seasonally normal free cash flow of CHF -23.4 million (CHF -26.8 million).

Cautiously optimistic outlook

Widespread uncertainty about economic developments in Europe, combined with the difficulty of predicting the effect of the end of state subsidy programmes in many countries, makes it hard to come up with reliable forecasts about the second half of the year. AFG is working on the assumption that overall there will be a long and slow fundamental recovery in its markets. It intends to use this time to remove operational and structural weaknesses and correct individual deficiencies. This will put the Group in a position to cope with any further economic downturns, but also to benefit more than most from a resurgent upswing. AFG will also be investing again, though much more modestly than in the past. As part of a long-term future strategy coordinated with its most important client, a global market leader, the Surface Technology Division began construction on a state-of-the-art coatings plant in the Shanghai area a few weeks ago. This will provide a platform for exploiting the exceptionally attractive potential of the Chinese and Asian markets.

The decision to centralise sourcing means that AFG will realise synergies worth several million francs per annum year by coordinating purchasing throughout the Group. On the other side, the market environment remains highly competitive for all divisions, so it is unclear how much of the increase in energy and raw materials prices it will be possible to pass on to customers. The price of steel is particularly important to AFG, and it certainly will not be possible for all business areas to pass on the recent sharp increases. AFG will have no choice, therefore, but to find further efficiency gains going forward.

However, the company remains cautiously optimistic about the second half-year and the year as a whole. "Barring unforeseeable events," says Chairman of the Board of Directors and CEO Edgar Oehler, "we believe we will see slightly higher net revenues and a significant improvement in profitability for the year as a whole."

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This press release and further information on AFG Arbonia-Forster-Holding AG can also be found on our website at www.afg.ch.
The First Semester Financial Report can be found at
http://www.afg.ch/pages/media/AFG_HJB_10_english.pdf

About AFG Arbonia-Forster-Holding AG

AFG Arbonia-Forster-Holding AG, based in Arbon, Switzerland, is a leading integrated construction industry supplier and technology group. The company is listed on the SIX Swiss Exchange and operates through five Divisions: Heating Technology and Sanitary Equipment, Kitchens and Refrigeration, Windows and Doors, Steel Technology and Surface Technology. Its production sites are in Switzerland, Germany, France, the USA, the Czech Republic, the UK and Slovakia. AFG has about 50 production and distribution companies around the world, as well as several representative offices and partners. It is active in more than 70 countries in total. Its brands - Kermi, Arbonia, Prolux, ASCO Swiss, Aqualux, Forster Küchen, Forster Kühlen, Miele Kitchens, Warendorf, Piatti, EgoKiefer, RWD Schlatter, Slovaktual, Forster Präzisionsstahlrohre, Forster Profilsysteme, STI | Hartchrom and Asta – are at the heart of its business. With these brands, AFG Arbonia-Forster-Holding AG has built up leading positions in its home markets of Switzerland and Germany. It is also engaged in intensive efforts to develop new markets in Eastern Europe, Russia, and the Middle and Far East, though always with a close eye on the general economic situation. A separate Asia Pacific regional branch was set up in 2008. AFG's focus is on segments that reward outstanding innovation and responsiveness with robust margins and exceptional long-term growth potential.

Key figures of AFG Arbonia-Forster-Group

in 1'000 CHF	First semester 2010	%	First semester 2009	%	Variance 09/10	%
Income statement						
Net revenues	628'628	100.0	626'379	100.0	2'249	0.4
EBITDA	47'374	7.5	35'013	5.6	12'361	35.3
EBIT	15'191	2.4	-11'966	-1.9	27'157	227.0
Result for the period	1'330	0.2	-23'266	-3.7	24'596	105.7
Balance sheet						
Current assets	606'396	42.8	510'477	36.5	95'919	18.8
Non-current assets	811'558	57.2	887'077	63.5	-75'519	-8.5
Total assets	1'417'954	100.0	1'397'554	100.0	20'400	1.5
Current liabilities	295'179	20.8	306'345	21.9	-11'166	-3.6
Non-current liabilities	547'688	38.6	490'091	35.1	57'597	11.8
Shareholders' equity	575'087	40.6	601'118	43.0	-26'031	-4.3
Net indebtedness	254'543		378'094		-123'551	-32.7
Cash flow statement						
Cash flows from operating activities	-10'215		7'710			
Cash flows from investing activities	-13'215		-34'506			
Cash flows from financing activities	94'074		13'077			
Average number of employees	5'652		5'847			
Segment information						
Net revenues						
Division Heating & Sanitary	260'043	41.4	264'493	42.1		
Division Kitchens & Refrigeration	113'658	18.1	120'090	19.1		
Division Windows & Doors	159'430	25.3	157'900	25.1		
Division Steel Technology	67'591	10.7	60'327	9.6		
Division Surface Technology	28'010	4.5	25'758	4.1		
		100.0		100.0		
EBIT						
Division Heating & Sanitary	19'170		1'939			
in % of net revenues	*7.4*		*0.7*			
Division Kitchens & Refrigeration	-5'823		-2'903			
in % of net revenues	*-5.1*		*-2.4*			
Division Windows & Doors	7'835		8'388			
in % of net revenues	*4.9*		*5.3*			
Division Steel Technology	5'228		-6'311			
in % of net revenues	*7.7*		*-10.5*			
Division Surface Technology	-4'372		-7'905			
in % of net revenues	*-15.6*		*-30.7*			
Earnings per share in CHF	0.07		-3.23			